

Xtension Services

May 31, 2005

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

DOCKET FILE COPY ORIGINAL

RE: Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996, CC Docket No. 96-128

Dear Ms. Dortch:

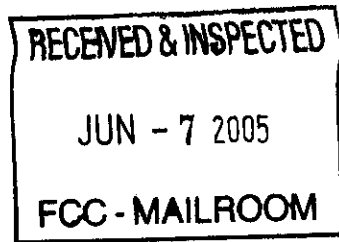
Attached please find the Independent Accountants Report by GSAssociates which Xtension Services Inc. is required to submit to the FCC per the requirements of 47 C.F.R. Section 64.1310, as discussed in the FCC Report and Order released on October 3, 2003 in the above docket.

Please let me know if you have any questions.

Sincerely,

David H. Amis
Executive Vice President and CFO

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Xtension Services, Inc.

Independent Auditor's System Report
For the Dial Around Compensation (DAC)
As required by FCC Order 03-235

1200 Old Alpharetta Road
Alpharetta, GA 30005

Table of Contents

INDEPENDENT AUDITOR'S REPORT.....	3
SYSTEM AUDIT REPORT.....	3
OVERVIEW OF SYSTEM AUDIT REQUIREMENTS.....	4
AUDIT PROCESS & PROCEDURES.....	5
DAC POLICIES & PROCEDURES	6
FCC RELEVANT RULES ACCURATELY STATED.....	6
RESPONSIBLE DEDICATED STAFF	6
DATA MONITORING PROCEDURES	7
ESTABLISHED SECURITY PROTOCOLS	7
DISPUTE RESOLUTION PROCEDURES.....	7
COMPENSABLE PAYPHONE CALL FILE CREATION	8
FINDINGS	8

Independent Auditor's Report
System Audit Report

Board of Directors
Xtension Services, Inc.

We have examined Xtension Services, Inc.'s compliance with FCC Order 03-235, during the Company's fourth quarter period October 1, 2004 through December 31, 2004. Management is responsible for Xtension Services, Inc.'s compliance with those requirements. Our responsibility is to express an opinion on Xtension Services, Inc.'s compliance base on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about Xtension Services, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on Xtension Services, Inc.'s compliance with specified requirements.

In our opinion, Xtension Services, Inc. complied, in all material respects, with the aforementioned requirements for the period mentioned through December 31, 2004.

Xtension Services, Inc. has engaged Billing Concepts, Inc. (BCI) to process compensation to Payphone Service Providers (PSP's). Included herewith, and made part of this report, is BCI's auditors' report concerning their compliance with FCC Order 03-235.

The description of policies & procedures concerning DAC at Xtension Services, Inc. as of December 31, 2004, as well as information concerning tests of the operating effectiveness includes the period of October 1, 2004 to December 31, 2004. Future projection of such information is subject to the inherent risk that, because of change, the description may no longer portray those procedures in existence. The potential effectiveness of specific controls at Xtension Services, Inc. is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that, (1) changes made to the system or controls, (2) changes in processing requirements, or (3) changes required because of the passage of time may alter the validity of such conclusions.

This report is intended solely for the information and use of Xtension Services, and is not intended to be and should not be used by anyone other the specified party.

Kevin R. Ratic, CPA

GSAAssociates
May 25, 2005

Overview of System Audit Requirements

This System Audit Report is a result of a recent FCC Order (03-235), effective July 1, 2004, requiring Interexchange Carriers (IXC's) and Switch Based Resellers (SBR's) to establish and maintain a comprehensive Call Tracking System (CTS) which accurately reports and compensates Payphone Service Providers (PSP's).

The Order calls for an independent third party audit report in conformity with AICPA standards. The independent auditor's report shall conclude whether the SBR complied, in all material respects, with the factors set forth (below) regarding the CTS as follows:

- 1) Whether the SBR's procedures accurately reflect the Commission's rules, including the attestation reporting requirements.
- 2) Whether the SBR has a person or persons responsible for tracking, compensating, and resolving disputes concerning payphone completed calls.
- 3) Whether the SBR has effective data monitoring procedures.
- 4) Whether the SBR adheres to established protocols to ensure that any software, personnel or any other network changes do not adversely affect its payphone call tracking ability.
- 5) Whether the SBR has created a compensable payphone call file by matching call detail records against payphone identifiers.
- 6) Whether the SBR has procedures to incorporate call data into required reports.
- 7) Whether the SBR has implemented procedures and controls needed to resolve disputes.
- 8) Whether the independent third-party auditor can test all critical controls and procedures to verify that errors are insubstantial, and
- 9) Whether the SBR's have adequate and effective business rules for implementing and paying payphone compensation.

Audit Process & Procedures

Our audit reports on the first four (4) factors listed in the Order. The guidelines used to conduct and prepare the report are established in the AICPA's Statements on Standards for Attestation Engagements (SSAE), specifically, SSAE 10, AT Section 101 *Attest Engagements* and AT Section 601 *Compliance Attestation*.

Those standards required that we:

- 1) Have adequate technical training and proficiency in the attest function.
- 2) Perform the attest function using practitioners having adequate knowledge of the subject matter.
- 3) Evaluate the subject matter against suitable criteria such as:
 - a) *Objectivity* -- free of bias
 - b) *Measurability* -- reasonable consistent measurements, qualitative or quantitative, of subject matter.
 - c) *Completeness* -- sufficiently complete so that relevant factors that would alter a conclusion about subject matter are not omitted.
 - d) *Relevance* -- criteria relevant to the subject matter.
- 4) Maintain an Independence mental attitude in all matters relating to the engagement.
- 5) Exercise Due professional care in the planning and performance of the engagement.
- 6) Obtain sufficient evidence to provide reasonable basis for our conclusion expressed in the report.

Because Xtension Services has engaged a clearing house for processing compensation for the PSP's, factors five (5) through nine (9) of the Order are subject to the AICPA's Statement on Auditing Standards (SAS) 70 -- Reports on Processing of Transactions by Service Organizations. The clearing house is required to engage an auditor to issue a compliant report regarding the remaining five (5) factors of the Order. That report is included herein and is hereby made part of our report.

Xtension Services does not own, nor operate a switch. As such the company is not a Switch Based Reseller (SBR), but instead, simply a switchless reseller. Thus items related to a switch do not apply to Xtension Services and are not and cannot be a part of this audit, as they are not auditable. Notwithstanding, Xtension Services maintains policies & procedures to meet FCC compliance regarding DAC.

DAC Policies & Procedures

Xtension Services has established and documented policies & procedures specifically in compliance with the Dial Around Compensation FCC order. These include, but are not limited to:

1. Backup Policy
2. Core Security / Critical Data Requirements Policy
3. Defect Tracking Process
4. Software Quality Testing Process
5. Change Control Policy
6. Host / Server Security Policy
7. Password Policy
8. Log Tracking & Archive Process
9. Physical Security Policy
10. Information Access Control Policy
11. Monitoring Policy
12. Firewall Policy

FCC Relevant Rules Accurately Stated

Xtension Services has established, defined and documented in accordance with relevant FCC Rules each of the following:

- Per-call rate.
- Per-phone requirements.
- Calls included as compensable calls
- Definition of completed call.
- Reporting requirements.
- Late payments per IRS overpayment rate.
- Data Storage Requirements.

Responsible Dedicated Staff

Xtension Services (along with their clearing house -- Billing Concepts, Inc.) has dedicated staff responsible for tracking, compensating, reporting and resolving disputes concerning completed calls as follows:

1. Kevin Emch, Director of Information Services for Xtension Services, is responsible for the Company's billing system which collects & processes call data and generates CDR's which are subsequently transmitted to customers who then pay the PSP's
2. David Amis, EVP & CFO for Xtension Services is responsible for compensation file delivery and payment to Billing Concepts.
3. Peggy Gaitan, from Billing Concepts is responsible for dispute resolutions, if any.

Data Monitoring Procedures

Xtension Services has developed a systematic reporting process to generate monthly and quarterly reports on payphone call counts, PSP identities, numbers called, and infodigits used.

These reports reflect:

- a) Trends of switch traffic volumes entering their payphone compensation systems.
- b) Possible fraud on potential illegitimate payphone calls.
- c) Trends of excluded calls.
- d) The capability to develop customized reports to help resolve disputes.
- e) Capacity for other appropriate trending reports.

Established Security Protocols

Xtension Services has implemented security protocols to limit access to call tracking systems in a controlled environment to authorized personnel.

Monitoring tracking systems have been installed to limit access to the company's call tracking system.

Access to compensation systems is controlled and monitored as well as limited to authorized personnel through security measures which have been implemented.

Dispute Resolution Procedures

Disputes, if any, are handled by Billing Concepts Inc. (BCI) because they perform the payments to the PSP's.

As a clearinghouse, BCI will conduct procedures to match the completed call details, from the PBX log, to the ANI database. BCI will also perform all the necessary communications with each PSP in regards to the completed call reporting and the payment for completed calls. CFO will, on a quarterly basis, certify that all payments, reports, and his sworn statement of payment accuracy have been sent.

Any disputes by a PSP will first be reviewed by BCI. If the payment was in error and supporting PBX log data indicate such, BCI will perform the correction. If disputes required additional supporting data from Xtension Services, BCI will inform CFO, in writing, of the request for additional information. CFO will manage the request in a timely and expeditious manner. CFO will then request standard updates at appropriate intervals by BCI until the dispute has been resolved.

Compensable Payphone Call File Creation

Xtension Services has submitted data to reflect standard extract from their PBX log. GSAssociates determined that this file contained all the necessary data to perform the ANI match and the detailed reports for compensation to each separate carrier.

Findings

Xtension Services is a switchless reseller with three (3) inbound carriers. As a reseller the Company has no outbound carriers. The Company has approximately 8,732 inbound Toll Free Numbers, for which Xtension Services maintains contractual agreements with each, which specifically address payphone compensation.

CDR's are currently received from the carriers on CD's containing electronic files. Xtension Services does not currently bill any of its customers for prepaid calling cards or calls made from payphones. All payphone compensation is outsourced to Billing Concepts, Inc. (BCI). As a result, all disputes, if any, are resolved by BCI.

The Company is in full compliance for the period audited and compensation has been appropriately made to the PSP's for the period.